acceptance of the new offering. In the worst case, even after facing direct resale competition for a new service, Ameritech would be forced to incur continuing losses while awaiting regulatory approval to withdraw the unsuccessful service from the marketplace. The resale requirement would also create the incentive for competitors to actually refrain from facilities-based competition with Ameritech and other Incumbent LECs, a result directly opposite the goals of section 706 in the 1996 Act. This is so because, in a resale arrangement as opposed to the use of unbundled network elements, a competitor can choose to risk absolutely no funds whatsoever in a new service.

Nor is there any public policy reason why section 251(c) should apply to advanced data service facilities. Section 251(c) was intended to facilitate new entry into the local market by enabling new entrants to avail themselves of an incumbent's existing network infrastructure, either by purchasing access to network elements at cost-based rates or by reselling incumbent LEC services. A new entrant, however, is no less able to construct new broadband facilities than is an incumbent LEC. The incumbent has no advantage because of any existing infrastructure or incumbent status, and there is thus absolutely no policy reason why it should be required to offer access at TELRIC rates to such facilities or to make them available at wholesale discounts.

Fortunately, as the Commission has recognized, the Act requires no such result. In particular, as held in the Non-Accounting Safeguards Order, under section 251(h), a BOC affiliate is not an incumbent LEC for section 251 purposes unless it "occupies a position in the market for telephone exchange service within an area that is comparable to the position occupied by the incumbent LEC, and such carrier has substantially replaced an incumbent LEC."[42] The

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[42] Non-Accounting Safeguards Order, at para. 312.

Commission observed that a BOC affiliate would not meet this test merely because it was engaged in local exchange activities.[43]

For the same reasons that a BOC affiliate that provides local exchange services is not an incumbent LEC, a BOC affiliate that owns its own broadband data facilities (or leases such facilities from an unaffiliated entity) is not an incumbent LEC. Certainly, to the extent a BOC retained ownership and control of its circuit-switched network -- the so-called bottleneck that the Act was intended to address -- the affiliate could not be said to have "substantially replaced" the BOC in any sense of the term.

Although the law is clear on this point, Ameritech asks the Commission to clarify that its construction of section 251(h) applies not only to section 272 affiliates, but to any broadband data affiliate that meets the modified separation requirements proposed herein. This clarification would be fully consistent with the reasoning of the Non-Accounting Safeguards Order and is a necessary corollary to the section 272 relief requested above.

For similar reasons, the Commission should also clarify that a data affiliate that complies with the modified separation requirements proposed herein is nondominant in its provision of such services. The Commission has already held that a BOC section 272 affiliate is nondominant in its provision of in-region and out-of-region interLATA services. Any section 272 relief the Commission grants herein would be hollow if such relief carried with it the baggage of dominant carrier status.

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[43] Significantly, the Commission based its conclusion not only on the plain language of the statute, but also on policy grounds. In particular, the Commission observed that permitting BOC affiliates to provide local exchange services would encourage competition and the deployment of innovative new services. Id., at para. 315.

Moreover, there can be no possible justification for classifying as dominant a data affiliate that complies with the modified separation requirements proposed herein. The hallmark of a dominant carrier is the ability to raise prices by restricting its own output.[44] As new entrants in the broadband marketplace, with no embedded facilities, BOC affiliates cannot possibly increase market prices by restricting their own output. On the contrary, they will have to fight against much larger established incumbents, such as MCI/WorldCom, for every new customer they win. Indeed, even if it was assumed (irrationally) that a BOC could favor its data affiliate through discrimination or cross-subsidization, regulating the affiliate as dominant would in no way address the problem. Thus, regardless of whether the Commission applied section 272 or the somewhat more relaxed Competitive Carrier framework proposed herein, BOCs could not possibly be deemed dominant.

Dominant carrier regulation of data affiliates would also be fundamentally contrary to the section 706(a) mandate. If Ameritech is to have incentives to deploy high-speed data services, it must be given the tools needed to compete in that marketplace. Subjecting a data affiliate to dominant carrier regulation, when every other provider of such services is virtually unregulated, would deny Ameritech these tools. Indeed, the Commission has long recognized the costs and burdens of dominant carrier status. As stated in the AT&T Non-Dominance Order:

> [t]he cost of dominant carrier regulation of AT&T in this context includes inhibiting AT&T from quickly introducing new services and from quickly responding to new offerings by its rivals. This occurs because of the longer tariff notice requirements imposed on AT&T, which allow AT&T's competitors to respond to AT&T tariff filings covering new services and promotions even before AT&T's tariffs become effective. The longer notice requirements imposed on AT&T thus also reduce the incentive for AT&T to initiate price reductions. In addition, to the extent AT&T were to initiate such strategies,

[44] LEC Classification Order, at para 85.

> AT&T's competitors would use the regulatory process to delay, and consequently, ultimately thwart AT&T's strategies. Furthermore, such regulation imposes compliance costs on AT&T and administrative costs on the Commission.[45]

Imposing such unnecessary burdens on Ameritech's data affiliate is hardly a way to spur the deployment of advanced broadband capabilities. On the contrary, it would be antithetical to that goal. Therefore, consistent with its treatment of BOC interLATA affiliates, the Commission should clarify that a BOC broadband data affiliate that satisfies the separation requirements established for the interLATA operations of incumbent independent LECs is nondominant in its provision of interstate services.

IV. THE REQUESTED RELIEF, AND RESULTING INFRASTRUCTURE INVESTMENT BY AMERITECH, WILL BE CONSISTENT WITH THE PUBLIC INTEREST.

The deregulatory options provided to the Commission pursuant to section 706 are to be exercised "in a manner consistent with the public interest, convenience and necessity". As shown above, any theoretical concerns regarding discrimination or cross-subsidy are fully addressed by Ameritech's Petition. In addition, the public interest benefits of a widely-available broadband telecommunications infrastructure are well-known and well-documented. It is beyond serious dispute that economic development on both personal and business levels, technological innovation, enhanced educational effectiveness and research capabilities, increased productivity, and countless other consumer benefits will accrue to Americans when such an infrastructure is deployed on the broad scale envisioned by Congress.

A. <u>The Requested Relief Will Result in Significant Customer Benefits</u>.

[45] Motion of AT&T Corporation to be Reclassified as a Non-Dominant Carrier, 11 FCC Rcd 3271, 3288 (1995).

The 1996 Act recognizes that the customer benefits of widely-available high-speed, switched broadband capabilities are best delivered and deployed by competing providers, as well as by competing technologies. Congress expressly made section 706(c)(1) blind to any particular "transmission media or technology" by which broadband services are delivered in recognition of their channel-independent nature. The Act's goal of competition in the broadband services marketplace, however, has only been partly achieved. Cable television plant, said to be more modern and sophisticated than most existing telephone network plant, is already supporting the needs of some American consumers for broadband access; cable modem-based systems, including set-top solutions like "WebTV",[46] are now in commercial use. Satellite-based broadband telecommunication services are also being touted to customers across the nation; advertising for these simple dish-based offerings is already nearly ubiquitous,[47] and more such offerings are announced almost daily.[48] Wireless services currently in initial deployment provide some residential customers with both high-speed Internet access and local exchange services.[49]

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[46] These devices have been commercially available since mid-1996 from large concerns including Sony and Phillips Magnavox. See, e.g., Business Week, November 24, 1997, pp. 151-2.

[47] DirecPC, a satellite-based offering introduced in 1995 by Hughes Network Systems, uses a 24-inch dish to provide high speed Internet access (up to 400 KB/sec) as well as a variety of multimedia interactive services, all through a subscriber's home PC. It is widely available through retail outlets (including, e.g., CompUSA, Computer City, and PC Connection) as well as catalog services.

[48] Satellite-based products announced to date include Lockheed Martin's "Astrolink" (155 Mb/sec.), Motorola's "Celestri" and "Mstar" (high bandwidth international data capability), Alcatel/Loral's "Skybridge" (6 Mb/sec downstream, 384 Kb/sec upstream), and McCaw/Gates/Boeing's "Teledesic" (64 Mb/sec downlink, 2 Mb/sec uplink).

[49] AT&T's "Angel" project promises two voice lines and one 128 KB/sec data channel in a "pizza box-sized" base station mounted on the side of a subscriber's home. High-speed (DS-1/DS-3) 38 GHz. wireless capability is currently offered to business customers in Ameritech's region by both Winstar and TCG's "BizTel" subsidiary (which holds licenses reaching 48 states and covering a Population of over 200 million people).

However, in contrast, investment in this new technology by incumbent LECs, including Ameritech, has been impeded by regulatory constructs that, whatever their historical significance, have no meaning in today's high-speed, broadband packet-switched marketplace.[50] This Petition, if granted, will remove these existing barriers to investment and, consistent with the path chosen by Congress in section 706 of the 1996 Act, will provide incentives for all portions of the private sector -- including incumbent LECs -- to invest in the deployment of advanced telecommunications capability across the nation.

Likewise, in its Access Reform proceeding, the Commission noted that it is "disinclined to take actions that would stifle, rather than enhance, the development of the Internet, or similar packet-switched services," and posed the question "(s)hould we consider using our forbearance or preemption authority to avoid results that would hamper the deployment of new technologies?"[51] As evidenced by this Petition, Ameritech's answer is a clear and unequivocal "yes". As Commissioner Ness has observed: "(t)he Internet has been able to grow and develop outside the existing regulatory structure because the FCC has made a conscious decision to limit the application of its rules".[52]

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[50] As discussed above, the concept of a LATA is particularly irrelevant when considering Internet service offerings, which are worldwide by their very nature.

[51] Internet NOI, at ¶¶ 314-315.

[52] Remarks of Commissioner Susan Ness before the WashingtonWeb Internet Policy Forum, Washington, D.C., February 9, 1998. Note also, e.g., Commissioner Powell's recent statement that "(t)he Act commands regulators and industry to move away from the monopoly-oriented, over-regulatory origins of telecommunications policy and toward a promised land in which the market, rather than bureaucracy, determines how communications resources should be put to their highest and best uses." Remarks of Commissioner Michael K. Powell before the Douglass Policy Institute, Washington, D.C., February 17, 1998.

If granted relief, Ameritech is ready and willing to invest in advanced high-speed, broadband facilities and equipment to compete with other companies and technologies to meet the increasing consumer demand for advanced data services. From a practical standpoint, Ameritech's expertise, experience and resources will make it an effective competitor in this marketplace.

Ameritech understands this technology. Since 1994, Ameritech has operated the Chicago Network Access Point ("NAP"), a public Internet Exchange Point that currently offers full interconnectivity to more than 50 connected Internet Service Providers ("ISPs"). One of only four major NAPs in the United States, the Chicago NAP also provides the same functionality to higher education and research institutions throughout the midwest. Due to the unsurpassed connectivity afforded by the Chicago NAP, as well as Ameritech's technical sophistication and capabilities, this site was recently selected by the National Science Foundation ("NSF") as its preferred access point for international traffic among research and educational institutions. This program, known as the Science Technology Advanced Research Transit Access Point ("STAR*TAP"), enables U.S. institutions to collaborate in worldwide research efforts.

Ameritech has also recently entered the retail data telecommunications marketplace -- although in a limited way -- with sophisticated new capabilities such as ADSL. This technology enables customers to connect to the Internet at speeds up to 50 times faster than a standard telephone line and modem. The initial commercial deployment of Ameritech's high speed Internet Access service in two cities has attracted significant consumer interest and subscribership. Ameritech has also recently offered a new Internet access service, "Ameritech.net", which currently serves over 50,000 subscribers in eight cities across the region served by Ameritech.

The experience gained by Ameritech in deploying these products, however, has proven to be overly complex and costly due to the existing regulations. These regulatory hurdles and their associated costs will be borne by customers unless the Commission encourages more efficient deployment by granting the requested relief.

As Attachment A demonstrates, customers want the benefits of high-speed, packet-switched broadband services.[53] Ameritech's participation in this evolving marketplace, therefore, will directly benefit consumers by making advanced telecommunications capability more widely available on a more efficient, cost-effective basis.

B. The Requested Relief Will Result in Increased Innovation.

In addition to the direct consumer benefits of Ameritech's investment in the evolving packet data services marketplace, customers will also benefit from the increased pace of innovation that results from reduced regulation. The Commission recently recognized this effect in declining to reimpose structural separation on the BOCs' enhanced service operations, noting that "reduced innovation ... may result."[54]

This cause-and-effect relationship between reduced regulation and increased innovation can be empirically demonstrated. A recent study undertaken for Ameritech demonstrates that stricter regulation generally hinders the innovative process by which new telecommunications services are created and introduced to subscribers.[55] The results of the study indicate that relaxed

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[53] See Attachment A.

[54] Computer III Remand Order, at para. 56, 63.

[55] The Effects of Regulation on the Innovation and Introduction of New Telecommunications Services, James Prieger, Department of Economics, University of California, Berkeley and Law and Economics Consulting Group, Inc., January 10, 1998 (Attachment B hereto). In addition to the Commission's CEI requirements, other forms of

regulation has two distinct positive effects on consumers. First, new telecommunication services were introduced and taken up with enthusiasm in the jurisdictions examined. Customers were clearly better off, as they "voted with their wallets" to purchase the new services. Maintaining stricter regulation could have prevented the new services from getting to the market at all. Second, relaxed regulation allowed the introduction of new services with less delay. Delay, of course, can close windows of opportunity for new offerings as the regulated company may withdraw -- or simply elect not to aggressively market -- a service subjected to long, intense scrutiny while changed market conditions make the service uneconomic to offer at a later time. This obviously reduces the reward for innovation and thus discourages innovative activity.

Ameritech's large-scale entry into the advanced data services marketplace will unquestionably bring these competitive, innovative benefits to consumers. In the cable television field, for example, there is strong evidence that a "cable overbuild" (i.e., entry by a second cable system operator into a former franchise monopoly area) improves market performance.[56] One recently-published economic study concluded that "(o)verbuild competition does seem to effectively constrain prices in cable television markets."[57] The FCC's own analysis of video programming competition finds even greater benefits from cable TV competition, as it recently stated that

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regulation considered in this study included price cap regulation of services in the Federal Access Tariffs and state-level "incentive regulation".

[56] The recent trade press is filled with examples of this pro-consumer effect. See, e.g., B. Gruley, "It's the Phone Man at At the Door -- and He Has a Deal on Cable TV," Wall Street Journal, September 22, 1997; L. Hall, "Cable, Telcos' Rivalry getting hotter," Electronic Media, Jul. 21, 1997 (at 3); L. Martino, "Cable TV goes Competitive," Metro Times, Jun. 11-17, 1997 (at 14).

[57] W. M. Emmons III and R. A. Prager, "The effects of market structure and ownership on prices and service offerings in the U.S. cable television industry," Rand Journal of Economics, Winter 1997, 28(4) at 747.

> [a] majority of incumbent cable operators responded [to entry] by offering subscribers: (1) improved programming; (2) additional channels at the same monthly rate; (3) reduced rates for basic tier service; and (4) new services such as upgraded converter boxes with interactive programming guides.[58]

These positive customer benefits have been demonstrated by Ameritech New Media, Ameritech's cable TV subsidiary, which now holds franchises in 65 midwestern communities.[59] As shown in Attachment C,[60] in every case in which Ameritech has offered service in a former CATV-monopoly community, the incumbent responded by reducing prices and/or offering innovative services and options. It can be expected that Ameritech's large-scale entry into advanced data services marketplace will do the same.

V. SECTION 706 REQUIRES THE COMMISSION TO REMOVE BARRIERS TO INVESTMENT ON A TIMELY BASIS.

Section 706 of the Act requires the Commission to encourage the deployment of such advanced telecommunications capability on a "reasonable and timely basis." To meet this duty, the Commission has explicit authority to utilize a number of deregulatory measures --- including regulatory forbearance -- if doing so removes barriers to infrastructure investment and achieves widespread deployment of such advanced telecommunications capability. As shown above, the wide-spread and rapid deployment of advanced telecommunications capability is lagging in the Ameritech region. Moreover, the regulatory requirements discussed above are barriers to investment by Ameritech in advanced telecommunications capability. Therefore, the relief

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[58] In the Matter of Annual Assessment of the Status of Competition in Markets for the Delivery of Video Programming, CS Docket No. 97-141, Fourth Annual Report (rel. January 13, 1998), at para. 178. Importantly, the Commission found that "[i]n the majority of these markets, the entrant was a LEC." Ibid.

[59] Service is currently offered by Ameritech New Media in 47 of these communities.

[60] Attachment C to this Petition lists communities in which Ameritech New Media has a franchise and offers service, as well as the incumbent's response to this competitive entry.

requested satisfies the statutory standard in section 706 and should be granted on a "timely basis".[61]

Far from being mere precatory language, the clear and strong directive of section 706(a)--which took effect immediately upon enactment of the 1996 Act -- imposes affirmative duties upon the Commission to act in a timely manner to remove investment barriers which hinder the deployment of advanced telecommunications capability. In addition to the immediate authority of section 706(a), the Commission is required under the terms of section 706(b) to undertake, on a regular basis beginning within 30 months of the enactment of the 1996 Act, formal inquiries into "whether advanced telecommunications capability is being deployed to all Americans in a reasonable and timely fashion." In the event of a negative finding on this point, the Commission must take "immediate action to accelerate deployment of such capability by removing barriers to infrastructure investment and by promoting competition in the telecommunications market."[62] In short, both section 706(a) and 706(b) require timely action, rather than passive observation.

This is not surprising, since the legislative history of section 706 reveals that it is tightly linked to one of the 1996 Act's main goals; specifically, this section is "intended to ensure that one of the primary objectives of the bill -- to accelerate deployment of advanced telecommunications capability -- is achieved ... ."[63] Former FCC Chairman Hundt said as much in

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[61] The general authority to forbear authorized in section 10 of the Act differs in several substantive respects from section 706's specific grant of forbearance authority to encourage the deployment of advanced telecommunications capability. In particular, section 706 contains no specific limitation on the Commission's authority to exercise forbearance or other deregulatory measures to encourage the deployment of advanced telecommunications capability. This is in contrast to the plain language of section 10, which expressly forbids the Commission to forbear "under subsection (a) of this section" from applying the requirements of section 251(c) or 271 until it finds that those requirements have been fully implemented.

[62] Section 706(b) (emphasis added).

[63] S. Rep. 104-23, 104th Cong., 1st Sess. 50 (1995) (emphasis added).

his statement to Congress that "section 706 does not require that the Commission wait two and a half years before trying to explore ways to deliver advanced telecommunications services to all America .... [w]e are very mindful of the urgency of this matter."[64]

Despite the sense of urgency accorded by Congress to the need to accelerate deployment of the requisite infrastructure, the Commission has already twice elected to defer action regarding section 706. Shortly after passage of the 1996 Act, near the very end of its first interconnection ruling, the Commission rejected calls to act as directed by Congress, promising instead to "address issues related to section 706 in a separate proceeding."[65] Later, in its universal service proceeding, the Commission again dismissed suggestions that it act in this area, stating instead that "(w)e support the goals of section 706, [but] we defer action on section 706 until we can develop a more complete record through a separate proceeding."[66]

Ameritech's Petition should be granted because it offers the basis for concrete, timely action to remove barriers to investment and will thereby achieve widely-available advanced telecommunications capability as envisioned by section 706 of the 1996 Act.

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[64] Testimony of Chairman Reed Hundt, FCC, before the Senate Commerce, Science and Transportation Committee, June 18, 1997.

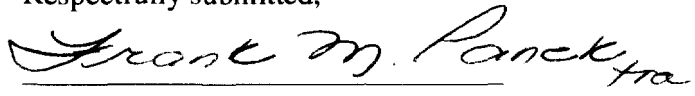
[65] In the Matter of Implementation of the Local competition Provisions in the Telecommunications Act of 1996, CC Docket No. 96-98, First Report and Order, 11 FCC Rcd 15499 (hereinafter "Interconnection Order"), at para. 1268.

[66] In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order (rel. May 8, 1997), at para. 604-5.

VI. CONCLUSION

For the reasons set forth above, the Commission should grant the relief requested, and implement such other deregulatory measures as the Commission deems appropriate to reach the 1996 Act's policy goal of affording all Americans access to advanced telecommunications capability in a reasonable and timely manner.

Respectfully submitted,



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Hoffman Estates, IL 60196-1025
(847) 248-6064

Dated: March 5, 1998

Attachment A

27 February, 1998

INTELENET
COMMISSION

To Whom it may concern:

Re: Comments Regarding Regulatory Relief for Ameritech

I am Chairman of the state of Indiana's Intelenet Commission. This Commission was established with the mission of providing cost-effective telecommunication networking and information technology (IT) services to Indiana's public sector. The Commission provides such services by aggregating and brokering the broad public sector's common networking and IT needs. The Intelenet Commission competitively procures its aggregated service demands and lets its constituent users derive the economic benefit of leveraged demand through those service contracts. The Intelenet Commission's customers are the state's elementary, secondary and higher education community, public libraries, state and local governments, as well as other public sector institutions.

Most recently, the Intelenet Commission has undertaken on the behalf of its user community, the deployment of a high speed ATM-based communications backbone to support the integration of multiple applications that exist across the various consortium members and provide a common shared resource since the economics of this technology and its services can not be borne by any single community. It is a common service demand. In this regard, the backbone network's single most expensive element is the cost of the connecting bandwidth. Indiana is a state that has ten (10) LATAs and that market is obviously driven by the few Inter-Exchange Carriers (IXCs) that provide such connecting bandwidth. Today that high-speed service market is unavailable, or severely constrained in capacity, availability, capability and most definitely in price. More competition in servicing the needs of not only the public sector, but the private sector as well, would be beneficial to the state and the region.

Additionally I note that two of the state's premier universities -- Indiana University and Purdue University -- are actively engaged with the new national "Internet2" initiative and the requirements of high-speed networking services to those resources which are out-of-state but in the Ameritech region, are compelling to this program. Currently the lack of such regional capability and capacity significantly constrains and impedes progress on this important research program.

Regulatory relief for Ameritech to provide such high-speed data networking services might clearly spur the marketplace to be more responsive and competitive in providing the necessary telecommunications infrastructure that Indiana and the Midwest region needs to be competitive. The Intelenet Commission supports Ameritech's request for regulatory relief to provide high-speed data networking if it will derive competitive bandwidth services and prices the public sector demands and the advanced networking services the research community requires.

Sincerely,

Stan Jones
Chairman

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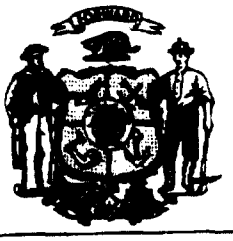
http://www.state.in.us/intelenet/

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON
GOVERNOR
MARK D. BUGHER
SECRETARY



Mailing Address:
Post Office Box 7864
Madison, WI 53707-7864

March 3, 1998

Mr. Gordon E. Reichard
President, Ameritech Advanced Data Systems
95 West Algonquin
124 Arlington Heights IL 60005

Dear Mr. Reichard:

I am writing to express support for regulatory relief for Ameritech and all Regional Bell Operating Companies to provide high bandwidth interLATA data services within their respective regions.

When our organization went to the marketplace to buy interLATA data transport, we were surprised how few competitors there were. In other areas of our business, in particular long distance voice services, we have found that service, price and range of options are better when effective competition exists among multiple players.

Our network needs require us to seek ways to connect to the Chicago and Minneapolis-St. Paul areas as well as across LATA boundaries within the state. We have found our choices to be limited, with pricing levels reflecting the limited amount of competition.

Based on our experience we believe that regulatory relief to allow more competition in this market will bring prices down, improve service and expand the range of service offerings.

Sincerely,

Jody McCann, Director
Bureau of Telecommunications Management

NORTHWESTERN UNIVERSITY
REBECCA CROWN CENTER
633 CLARK STREET
EVANSTON, ILLINOIS 60208-1104

VICE PRESIDENT
FOR INFORMATION TECHNOLOGY

Telephone: (847) 491-7311
FAX: (847) 491-8406
m-rahimi@nwu.edu

March 2, 1998

Mr. Michael Gorman, Vice President
Ameritech Corporate Strategy
2000 Ameritech Center
Hoffman Estates, IL 60196

Dear Mike:

Thank you for sharing with me the Ameritech's planned FCC petition to allow Ameritech InterLATA advanced data network services and fewer pricing regulations. I am delighted that you are taking this action. Your ability to geographically expand advanced data services and make it available at reasonable cost will well serve higher education, k-12 education and retraining of the twenty-first century labor force. It should support the congressional mandate of making available "advanced telecommunication capability to all Americans."

Jointly with other Chicago-based higher education institutions and national laboratories, we have used the Ameritech facilities to have available within the Chicago LATA one of the world's most advanced digital networks. Hundreds of schools, museums, libraries, colleges and civic organizations are beneficiaries of these facilities. So are many businesses that are in Internet service provision. To stop advanced services at the LATA boundary, because of historic decisions that were made at a time none of these services were available, is frustrating. Reaching beyond the Chicago LATA from these facilities requires unnecessary expenditure. There is no good reason to not extend the educational and scientific service that we provide in Chicago to the rural area of the state or to the neighboring states. The unnecessary restrictions on Ameritech and other Bell operating companies for nation-wide data services is denying access to our emerging high speed data networks to institutions and individuals that are not in major metropolitan areas. It is also denying higher education a less expensive means of collaborating across the country. It seems to me that the present policy, which was designed to protect users, is in fact protecting those that are not willing to invest in bringing advanced services to all areas of the country.

I wish you success with your petition. I look forward to seeing additional competitors in the advance data business. You have shown willingness to invest in developing advanced networking capabilities and infrastructure, as demonstrated within Chicago and other LATAs. Your participation in the InterLATA business should encourage others in the InterLATA business to invest to compete with you. That will be good for higher education and for supporting our national networking priorities.

Sincerely,

M. A. Rahimi
Vice President

INDIANA UNIVERSITY

OFFICE OF THE
VICE PRESIDENT
FOR INFORMATION
TECHNOLOGY

February 26, 1998

Gordon E. Reichard, President
Ameritech Advanced Data Services

On behalf of Indiana University, I am writing in support of Ameritech's pursuit of regulatory relief permitting their participation in the development of advanced high bandwidth networking services.

Indiana University (IU), founded in 1820, is one of the United States' top ten public research universities. With more than 90,000 students and an annual budget of nearly $2 billion, IU is one of the largest institutions of higher education in the United States. IU includes eight campuses, the main residential campus at Bloomington and the large urban campus located in Indianapolis

Supporting Indiana University's mission of excellence in research, instruction and lifelong learning are a variety of communications and networking services. Each of IU's eight campuses maintains a local campus network, connecting upwards of 30,000 information technology devices across the whole University. IU's research efforts are increasingly more dependent on high-speed, highly redundant network services. Many emerging research initiatives and projects revolve around data-intensive network based applications that are critically dependent on IU's high performance networking backbone and capabilities. Likewise, efforts in distance learning and instruction continually require significant network speed and bandwidth.

Outside the boundaries of our campus networks, Indiana University has a leading role in the design and deployment of the TransPAC network, a high-speed backbone that will interconnect prestigious research institutions in the US, Japan, Korea and other Far Eastern countries. IU is also one of the founding members of the Internet2 consortium. As a member of the NSF sponsored vBNS connection project, the ATM network at Indiana University is in a constant need of upgrade and improvements.

The constraints imposed by regulatory restrictions limit competition for higher bandwidth and resilient access paths between our campuses, peer institutions and national and international partners. IU has, therefore, been forced to contract with technically inferior providers who are at times incapable of delivering required level of services. I strongly encourage the pursuit of all possible avenues to enable Ameritech to compete with other service providers in our area to address our ever increasing need for high bandwidth connectivity.

Sincerely,

Michael A. McRobbie
Vice President for Information Technology

MAM:tffb

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Since 1860
For Christ and
His Kingdom

Wheaton College

WHEATON, ILLINOIS 60187-5593

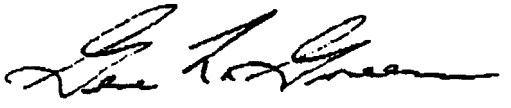
February 26, 1998

Federal Communications Commission
1919 M Street NW
Washington, DC 20554

Dear Commissioners of the FCC,

I have been given to understand that Ameritech is filing a petition with the FCC in order to be enabled to carry long distance data traffic. Due to current regulations, Ameritech has not been allowed access to this interlata traffic market. As a customer of Ameritech and a member of their ADSL trial, I would greatly favor this expansion as it would mean that I could choose the reliability and service to which I have become accustomed through Ameritech. In addition, allowing Ameritech to enter as a player in this market would increase competition which, at the end of the day, will result in lower prices and better service for consumers. Such a move would also help me as a consumer by keeping billing simple. Through Ameritech's ADSL trial I have been able to experience firsthand the professionalism and the quality of service which Ameritech is able to deliver in the field of data traffic. I cannot think of one justifiable reason to exclude them as a player from the long distance market.

Yours sincerely,



Dr. Gene L. Green
Associate Professor of New Testament

ALCATEL

Steve Snow
Regional Vice President

February 27, 1998

Mr. Mike Gorman
Ameritech
2000 West Ameritech Center Drive
Location: 4C38
Hoffman Estates, IL 60196-1025

Fax: 847/248-6128

Dear Mr. Gorman:

On behalf of Alcatel Telecom, I am writing to endorse Ameritech's position to offer a mixture of broadband and long distance services in providing Advanced Telecommunications Services.

As a member of the vendor and supplier industry, Alcatel provides equipment, software, and support to the telecommunications industry. Customers include Ameritech, traditional long haul carriers, and the emerging CLECs. In this capacity, we have experienced the direct benefit in an open market based economy in the United States

Overall, Alcatel's United States employment and revenues will directly benefit by the further opening of markets in this Information based economy. We strongly agree that strengthening of the United States worldwide position as the leader in electronic commerce will benefit consumers in terms of choice and economics. We believe that this dual objective is well in line with Ameritech's request.

Overall, Alcatel endorses free and open competition in all markets.

Sincerely,

Steve Snow

Alcatel Network Systems, Inc., 2800 West Higgins Road, Suite 825, Hoffman Estates, Illinois 60195

Attachment B

The Effects of Regulation on the Innovation and Introduction of New Telecommunications Services

a study funded by and conducted for

Ameritech

by

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March 2, 1998

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The Effects of Regulation on the Innovation and Introduction of New Telecommunications Services

Executive Summary

This study examines the pernicious effects that regulation can have on the innovation and the introduction of new telecommunications services. I use data from three different spheres of regulated telecommunications activity: federally regulated advanced telecommunications services, federally regulated access services, and local services regulated at the state level. In each case I find that stricter regulation hinders the innovative process by which new telecommunications services are created and introduced to subscribers.

The results of the study indicate that relaxed regulation benefits consumers of telecommunications services in two ways. First, more new services are introduced, which provide net benefits to customers purchasing them. Maintaining the status quo of tighter regulation may have prevented many of these services from ever being offered. Consequently, hundreds of millions of dollars of benefits could have been lost by consumers.

The second, and related, beneficial effect for consumers is that relaxed regulation allows new services to be introduced with less delay. Regulatory delay disallows consumers from enjoying the benefits of the new services immediately. Worse yet, delayed approval can preclude a new service from ever being offered to customers. The regulated company may simply withdraw a potential new service because the delay makes the service unprofitable to introduce. Regulatory delay also allows competitors to copy the service and to pre-empt the innovating company. The innovating firm fails to reap the rewards of its efforts, and may be discouraged from future innovation. These two effects of relaxed regulation were responsible for *tripling* the number of new services in some of the jurisdictions examined.

A. The Comparably Efficient Interconnection Regime: Enhanced Services and the Removal of Structural Separations Requirements

This first part of the study examines AT&T and the RBOCs' experience with integrated enhanced services. After the initial requirement of structural separation in the offering of any enhanced service, the FCC allowed AT&T and the RBOCs to offer such services on an integrated basis. Such offerings required approval of a plan to ensure Comparably Efficient Interconnection (CEI) to the network elements underlying the service to other providers. Enhanced services have been introduced via CEI plans or waivers since 1987, except for an interim (1993-1995) in which CEI plans were not required. We can use this "natural experiment" to compare innovation under the CEI regime with innovation during the freer interim.

The analysis, performed on the 106 new enhanced services introduced via CEI plans or waivers, lends support to the hypothesis that the period of lighter regulation spurred service innovations. The actual number of services innovated in the interim is 58% higher than the model predicts would have been introduced if the CEI plan requirements had still been in place. Ameritech alone innovated over twice as many services during the interim as the model predicts would otherwise have been the case.

The analysis also looks at the determinants of CEI plan approval delays. The average predicted approval delay is 190 days per service. Amendments of previous plans are approved in 46% less time than is normally the case; waiver requests are approved 50% slower than otherwise. "Me too" filings are approved 29% quicker than other plans, lending credence to the oft-quoted "penalty of the pioneer."

B. Price Caps and New Services in the Federal Access Tariff

The second part of the study examines new federally regulated access services introduced by Ameritech in its regional operating territory. The 102 new services introduced into Ameritech's federal tariff during the period 1984–1997 fall into three main categories: switched, special, and other access services. In 1991, the FCC switched from traditional rate of return regulation to price caps. Many economists argue that price caps speed the introduction of new technology by allowing firms to retain as profit a greater part of the economic benefit created by the service. Indeed, the FCC designed its price caps so that new services are not included in the cap in the first year of introduction, to allow the innovator even greater appropriation of the benefit.

The model estimates that moving to price caps almost tripled the number of services introduced per year, increasing the average number of new services by eight per year (from 3.8 to 11.5). The effect of price caps is greatest on special access services, and least on switched access services. Furthermore, expected approval delay times fell from 107 days before price caps to 40 days after.

One would like to estimate the welfare that consumers received from these new services. Consumer surplus from new services is often very large, because the incremental (gross) benefit from a new product is the entire area under the demand curve up to the quantity purchased. Unfortunately, it is not possible to estimate directly consumer surplus from all these new services. These services, because they are new, have been in the market for a short time only and the data simply do not exist for demand curves to be estimated. Although one cannot directly estimate the surplus consumers enjoy, one *can* provide a lower bound to the gross benefits accruing to consumers by looking at their expenditure. For example, if consumers spend $5M on a new service, then we know that the benefits they enjoyed from the service were *at least* $5M, and potentially much larger.

Therefore, to measure the gains to consumers from the change to price caps, I calculate the expected value of the extra expenditure on access services resulting from the switch to price caps. Expenditure increases after price caps for three reasons: first, more services are introduced; second, fewer approvals are delayed (beyond the minimum mandated delay); and third, approvals that are delayed are delayed shorter amounts of time. The expected consumer expenditure during the 1991–1997 period under the counterfactual assumption that price caps were not implemented is $120M. Under the (factual) assumption that price caps were in place during that time, expected expenditure is $391M for the period. The difference, which may be attributed to the onset of price caps, is $271M for the period, or $42M per year. Thus, by the argument above, gross consumer benefits are at least as large as these figures.

C. Opportunity Indiana: Alternative Regulation at the State Level

The third part of the study examines Ameritech Indiana's experience with new tariff filings under Opportunity Indiana, an alternative regulatory scheme implemented in July 1994. Opportunity Indiana dramatically decreased the delays associated with tariff approvals for new services, and appears to have greatly increased the number of services introduced. The analysis was performed on the 51 new services introduced by Ameritech Indiana during the six year study period (July 1991–June 1997). The results confirm that the increased number of new services is not due solely to exogenous economic or demographic factors but appears to be from the reduced regulatory burden of Opportunity Indiana itself. The analysis also estimates that Opportunity Indiana was responsible for a tripling of new services introduced and a 17-fold reduction in average time-to-approval.

The impact of Opportunity Indiana is most powerfully seen by estimating total consumer expenditure for the three year period before and after Opportunity Indiana began. As explained above, these expenditure figures can be viewed as underestimates of gross consumer benefits. Opportunity Indiana increases total consumer expenditure for a three year period by anywhere from $18M to $182M, depending on the assumed expenditure per service. Using the average projected expenditure per new service from the Opportunity Indiana period, total consumer expenditure for the period is estimated to increase by $131M due to Opportunity Indiana. Consumers making this expenditure therefore valued the incremental benefits from the new services at *more* than $131M.